

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

NOTICE OF MARKET-DOMINANT
PRICE ADJUSTMENT

Docket No. R2015-4

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(January 30, 2015)

The United States Postal Service hereby provides its response to questions 1-5 of Chairman's Information Request No. 1, issued on January 23, 2015. The questions are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. The Periodicals Mailer Database contains billing determinant data for each publication for the fiscal year.
 - a. Please provide the FY 2014 Periodicals Mailer Database.
 - b. What is the average price increase for all Periodicals mailers, assuming mailers do not adjust mail preparation and entry levels?
 - c. Please detail how the new Flats Sequencing System (FSS) pricing and mail preparation rules impact mailers that entered 30 percent or more of their FY 2014 volume at Carrier Route prices?

RESPONSE:

- a. While there is no standing database by that name, or of that description, the Postal Service has developed a database for this response. It is filed under seal in library reference USPS-LR-R2015-4/NP2.
- b. FSS sortation has been required for eligible Periodicals volumes destinating in FSS zones since January 26, 2014. See New Mailing Standards for Domestic Mailing Services Products, 78 FED. REG. 76533 (Dec. 18, 2013). Though the Postal Service is introducing new entry level pricing for FSS volume, the Postal Service assumed that all mailers would continue entering mail at their existing entry points. Accordingly, when all of the pricing elements are considered, the average mailer will pay the average increase shown in *CAPCALC-PER-R2015-4Mod.xlsx* (submitted as part of USPS-LR-R2015-4/6).
- c. Carrier Route and 5-Digit pieces will pay a blended price based on the existing proportions of mail in those two categories. The blended price reflects the relative shares for Carrier Route and 5-Digit volumes in Periodicals during FY 2014. Carrier Route pieces pay more than the current Carrier Route price, and 5-Digit pieces pay less than the current 5-Digit price. Therefore, holding all other

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mail preparation and entry characteristics the same (which they are not), mailers who entered an above average proportion of Carrier Route during FY 2014 would receive an above average price increase. The Postal Service is unsure of the special significance of 30 percent.

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2. On page 53 of the Notice, the Postal Service states that one proposed change to the Mail Classification Schedule (MCS) is to “eliminate some price cells and add some new price cells, to reflect the new price structure for flat-shaped pieces prepared for and entered at FSS locations, in Standard Mail High Density and Saturation Flats/Parcels, Carrier Route, and Flats, and in Periodicals Outside County and Bound Printed Matter Flats.”
- a. Currently, mailers are allowed to pay Carrier Route prices for mail presorted for the FSS in FSS scheme or pallet bundles. Please confirm that with the implementation of the proposed prices, mailers that enter FSS presorted pieces will be required to pay FSS prices. If not confirmed, please explain.
 - b. Please confirm that, for mail destinating in FSS zones, mailers will not be allowed to enter mail at prices lower than FSS prices, such as Carrier Route, High Density, or Saturation prices. If not confirmed, please explain.

RESPONSE:

- a. Confirmed.
- b. Not confirmed. FSS preparation for Standard Mail High Density, High Density Plus, or Saturation remains optional. Similarly, FSS preparation for Periodicals High Density and Saturation remains optional. Depending on the class of mail, mailers can receive High Density, High Density Plus, or Saturation prices for mail destinating in FSS zones if the mail is prepared as High Density, High Density Plus, or Saturation. If the mail is prepared as FSS, mailers will pay the FSS prices for their High Density, High Density Plus, or Saturation volumes. As with all products for which FSS preparation is required, volumes destinating in FSS

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zones that were Carrier Route are required to sort to FSS zones, and will pay
FSS prices.

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3. 39 C.F.R. § 3010.23(d) states "The Postal Service shall make reasonable adjustments to the billing determinants to account for the effects of classification changes such as the introduction, deletion, or redefinition of rate cells.... The Postal Service shall identify and explain all adjustments. All information and calculations relied upon to develop the adjustments shall be provided together with an explanation of why the adjustments are appropriate."
- a. On pages 28 and 29 of the Notice, the Postal Service discusses adjustments to the Periodicals billing determinants.
 - i. The Postal Service states that the "[a]djustment for FSS Full year Volume is estimated based on the Quarter 3 and Quarter 4 Volume. The Adjustment is made for all FSS mail categories." Notice at 28. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
 - ii. The Postal Service states "[t]wo new FSS prices are introduced for FSS Machinable Barcoded Flats and FSS Machinable Nonbarcoded Flats. The volumes for these price categories are estimated based on the Mail Characteristic Study. The volumes were also used to derive the weighted average prices for these new rates." Notice at 28-29.
 - 1. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
 - 2. Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the file "CAPCALC-PER-R2015-4.xls."
 - iii. The Postal Service states "[t]o encourage mailers to create cost efficient Pallets, a Pure Carrier Route Pallet was introduced. These

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pallets are required to include only Carrier Route bundles. This type of mail preparation will reduce the additional work related to bundle sorting. A discounted price is introduced for Pure Carrier Route Pallets at all entry levels.” Notice at 29. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.

- iv. The Postal Service states “Carrier Route and Firm Bundles are created at the pallet level. The volumes for these types of preparation were estimated using the Mail Characteristic Study.” Notice at 29.
 - 1. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.
 - 2. Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the file “CAPCALC-PER-R2015-4.xls.”
- v. Please link all volume data, including adjustments, in the file “CAPCALC-PER-2015-4.xls” to the Periodicals billing determinants in USPS-LR-FY14-4, file “FY 2014 Periodicals.xls” or other sources as applicable.
- b. On pages 25 and 26 of the Notice, the Postal Service discusses changes to the Standard Mail billing determinants.
 - i. The Postal Service states that the “first adjustment deals with breaking down the volume in Carrier Route Flats. Currently there is only one type of Carrier Route Flat resulting in only one set of volumes and one set of prices. We propose to add a Carrier Route Flat category called ‘5-Digit pallet’ that will encourage efficiency by providing lower prices for Carrier Route Flats on 5-Digit pallets than

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Carrier Route Flats in other containers.” Notice at 25-26. Please identify the calculations used to make this adjustment. If the calculations have not been provided in this docket, please provide them.

- ii. The Postal Service states that the “second adjustment deals with the fact that pound prices for letters are being eliminated. Going forward, the Postal Service will be charging only piece prices for letters. Since the decision to eliminate pound rated pieces was made after postage statements had been finalized, pound prices will remain in the postage statements until the next release, but the prices will be zero.” Notice at 26.

1. Please provide a revised Excel file “CAPCALC-STD-R2015-4.xlsx” that shows the underlying calculations reflecting the proposal to charge only minimum-per piece prices for Standard Mail Letters. See Preface to USPS-LR-R2015-4/2 at 3, which states that billing determinants data for the pound-rated pieces were included in the cells for the piece-rated pieces and that the current (Docket No. R2013-10) prices were adjusted to generate an amount equivalent to the pound-rated revenues.
2. Please explain why the pound-rated pounds billing determinants were set to 0 in Excel file “CAPCALC-STD-R2015-4.xlsx.” In the response, please discuss where the current revenue (under Docket No. R2013-10 prices) for pound-rated pounds is reflected in Excel file “CAPCALC-STD-R2015-4.xlsx.”
3. To assist in the Commission’s analysis of the price changes for Standard Mail, please provide a revised Excel file “CAPCALC-STD-R2015-4.xlsx” that includes the pound-rated pounds billing determinants data from Library Reference USPS-FY14-4.

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- iii. The Postal Service states that the “third change deals with moving all Carrier Route and High Density FSS Flats to the L-F-P Flats category and reporting them as Scheme Pallets or Not-Scheme Pallets. This creates 88 new price cells. The composition of each new rate cell will be discernable in the on “FSS Blended Rates Auto” and “FSS Blended Rates NonAuto” in CAPCALC-STD-R2015-4.xlsx.” Notice at 26. The tabs “FSS Blended Rates Auto” and “FSS Blended Rates NonAuto” contain the statement “Source: Volumes estimated using Mail Characteristics Data in ACR 2014 USPS-FY14-14.” Please identify the workbook and tab of Library Reference USPS-FY14-14 that contains the cited volume information. If the volume information was not provided in an Excel workbook in Library Reference USPS-FY14-14, please provide the information in an Excel workbook, linked to the Excel file “CAPCALC-STD-R2015-4.xlsx.”
- iv. Please link all volume data, including adjustments, in the Excel file “CAPCALC-STD-R2015-4.xlsx” to the source data in Library Reference USPS-FY14-4, Excel file “FY2014 STANDARD.xlsx,” or other sources as applicable.
- c. The Postal Service does not discuss adjustments to the Package Services billing determinants in its Notice. The Postal Service states “FSS price categories have been introduced for BPM Flats. FSS price categories have been introduced for presort at originating entry, DNDC entry, DSCF entry, and DFSS entry. There will be no FSS pricing for DDU destination entry, nor will carrier route presort be available within FSS zones. The FSS price categories will be priced to encourage the creation of FSS scheme bundles within FSS zones.” Notice at 30.
 - i. Please provide and discuss the calculations used to make these adjustments to the Package Services billing determinants for the introduction of FSS pricing.

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- ii. Please link all volume data, including adjustments, in the file "R2015-4 Package Services Cap Calculations.xlsx" to the source data in Library Reference USPS-FY14-4, file "FY2014 BPM.xlsx," or other sources as applicable.

RESPONSE:

- a. For the following responses to parts i through iv, please see the file provided in USPS-LR-R2015-4/6, *CAPCALC-PER-R2015-4Mod.xlsx*, with two new tabs, "FSS Piece Data" and "5D & CR".
 - i. The Billing Determinants are adjusted, using the Quarter 3 and 4 FY2014 Billing Determinants to estimate the preparation and rate qualification properties for each of the remaining quarters by rate cell. Quarters 3 and 4 are used because these quarters reflect mail preparation and entry statistics under the FSS preparation requirements. The adjustment applies the Q3 & Q4 FY2014 distribution of pounds, bundles, sacks and pallets at all entry, presort, and container level to the corresponding rate elements in each quarter, for the Regular, Nonprofit and Classroom categories.

The Periodicals file provided in USPS-R2015-4/6 applies the results of the Mail Characteristics Study to calculate the volumes for new FSS nonbarcoded and FSS barcoded pieces.
 - ii. The estimates from the Mail Characteristics Study data are applied to FY2014 piece data, to determine the migration of piece volume from the respective cells. Cell I36 in Tab FSS Piece Data is the percentage of FSS pieces (15.625%) in total piece volume. Second, percentages are calculated for Q3 2014 by presort level and then applied to all of FY2014.

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This distribution of 3D Nonbarcoded and 5D Nonbarcoded is applied to FY2014 for FSS Nonbarcoded pieces. FSS Barcoded pieces are estimated by applying the proportion from 3D BC, 5D BC and CR basic. This migration of pieces is adjusted by deducting the pieces from the respective cells. These cells are linked to the tab FSS Piece Data cells mentioned above.

- iii. Applying the Mail Characteristics Study data to Q3 FY2014 detailed data, the pure Carrier Route Pallets volume is estimated. Cells in Tab 5D & CR are linked with each calculated cell under Pure Carrier Route (Columns AK, AL, AM, Tab 5D & CR), which are migrated from the 5D, 5D/CR and merge pallets. For example, for the regular rate Pure Carrier Route Container entered at the DDU, the percentage is 33.82% (Cell AK 14, Tab 5D & CR). The percentages are calculated for Regular, Nonprofit, and Classroom.
- iv. Applying the Mail Characteristics Study data to Q3 FY2014 detailed data, the Carrier Route and Firm Bundles cells are created in Regular, Nonprofit, and Classroom. Cells Tab 5D & CR are linked with each calculated cell, in the Carrier Route and Firm Bundle cells, which are migrated from the 5D, 5D/CR and merge bundles. The Bundles found at container level in the 5D & CR tab are distributed to the 5D/CR Container level for FY2014. For example, the regular rate Pure Carrier Route Container, Carrier Route Bundles percentage is 94.68% (Cell AE 40, Tab 5D & CR).

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b. For the following responses to parts i through iii, please see the files provided in USPS-LR-R2015-4/6.

- i. The billing determinants are adjusted using the Quarter 3 FY2014 preparation characteristics to estimate the preparation and rate qualification properties for each of the remaining quarters by rate cell. Quarter 3 is used because it was the first full quarter of data available after the FSS preparation requirement was implemented. The adjustment applies the Q3 FY2014 distribution of Carrier Route pieces prepared in Carrier Route bundles by container type and container level to the corresponding rate elements in each quarter.

The Postal Service is attaching ten Excel files detailing the adjustments to the Standard Mail Billing Determinant for both Carrier Route Flats and new FSS price cells. Five files apply to Commercial Standard Mail, while the other five files apply to Non-profit Standard Mail. Each of the five files for Commercial Standard Mail represents a quarter in the hybrid year of this filing. There are two files for the second quarter; the first shows the before January 27, 2014 volumes, and the second file shows the after January 27, 2014 volumes. The five file applying to Non-profit mail are organized in the same manner. The ten files are named:

- Standard FSS BDs Q1 FY14.xls
- Standard FSS BDs Q2 FY14 Post Rev.xls
- Standard FSS BDs Q2 FY14 Pre Rev.xls
- Standard FSS BDs Q3 FY14.xls
- Standard FSS BDs Q4 FY14.xls

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- Standard NP FSS BDs Q1 FY14.xls
- Standard NP FSS BDs Q2 FY14 Post Rev.xls
- Standard NP FSS BDs Q2 FY14 Pre Rev.xls
- Standard NP FSS BDs Q3 FY14.xls
- Standard NP FSS BDs Q4 FY14.xls

In each of the files, the “Split 5DCR” tab presents the distribution of Carrier Route pieces in Carrier Route bundles by container type, level, and entry for Q3 FY14. This distribution is used to calculate the proportion of Carrier Route pieces on 5-Digit pallets by entry. These proportions are applied by rate cell to the proportion of all pieces in the rate cell that remain after FSS migration.

The FSS migration and 5-Digit Split for Carrier Route Flats were done simultaneously in the ten source files in USPS-LR-R2015-4/6. The migrated and split volumes appear in the tabs “BDs non-ECR” and “BDs ECR”. The “BDs non-ECR” volumes contain the automation and non-automation flats that are not responsive to this question but are responsive to question iii below. “BD's ECR” contains the adjusted volumes for High Density flats, High Density Plus flats, and Carrier Route flats. The volumes for Carrier Route Flats on 5-Digit pallets in the CAPCALC files match the volumes for this category on these pages. But the other categories do not match because the analysis which migrated FSS volumes and differentiated 5-Digit pallets from other flats did not include letter-shaped flats.

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For example, the CAPCALC file shows 64,815,049 other flats in cell D30 of tab "HD-SAT-CR Com. Cap Wts" as the volume for Commercial piece-rated Carrier Route Flats in other containers for Origin entry. However, the 5 commercial files in the "BDs ECR" tabs show volumes of 16,333,473 for Q1, 3,968,486 for Q2 before rates, 12,190,197 for Q2 after rates, 15,266,658 for Q3, and 15,119,395 for Q4. This adds up to 62,878,209 pieces. The difference between the CAPCALC volume of 64,815,049 and the volume from the USPS-LR-R2015-4/6 files of 62,878,209 is 1,936,840 pieces. The FY2014 Billing Determinants (ACR2014 USPS-FY14-4) show 1,936,840 Commercial piece-rated letter-shaped flats for Origin Entry. (See cell H16 of the "ECR Flats (ltr-shaped)" tab.) These letter-shaped flats belong in the same price cell as the other flats but were not part of the analysis for FSS migration and Carrier Route Flats 5D split from other Carrier Route Flats. The way this analysis excluded letter-shaped flats from the volumes makes it inappropriate to link the other flats volumes from the "BDs ECR" tabs to the CAPCALC file. The letter-shaped flats remained entirely in the Carrier Route Flats other cells; none were moved into the Carrier Routes Flats on 5-Digit pallet cells.

The Carrier Route Flats on 5D Pallets in the "BD ECR" tabs do match exactly and can be linked. For example, for Nonprofit Carrier Route 5-Digit pallet pound-rated pieces entered at DNDC, the CAPCALC file shows 229,330 pieces in tab "HD-SAT-CR NP Cap Wts". In the 5

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nonprofit files in the "BD ECR" tabs at cell k29, the volumes are 75,296 in Q1, 13,159 in Q2 before rates, 31,691 in Q2 after rates, 46,875 in Q3, and 62,310 in Q4. The volumes from the tabs in USPS-LR-R2015-4/6 add up to the same number in the CAPCALC, with the difference of one due to rounding. The same calculations were made for all twelve Carrier Route Flats 5-Digit pallet volume cells. The Carrier Route Flats on 5D Pallets in "BD ECR" are linked to the revised CAPCALC file submitted in this answer. Linking these files uncovered two small errors in the pounds for non-profit Carrier Route on 5D Pallets for Origin and DSCF entry that has been corrected in "CAPCALC-STD-R2015-4-CHIR1-Q3b.xls". This correction had no impact on prices or percentage increases for the Carrier Route products or Standard Mail.

- ii(1) Please see the file "CAPCALC-STD-R2015-4-CHIR1Q3b.xls" in USPS-LR-R2015-4/6. The file includes all of the pound-rated pieces and pounds for letters which were moved into the piece-rated cells in the file "CAPCALC-STD-R2015-4.xlsx" in USPS-LR-R2015-4/2. The new file also includes the current prices for these volumes which were from Docket No. R2013-10. The file illustrates how pound-rated revenues were accounted for in tabs "L-F-P Revenue@Current Prices" and "HD-SAT-CR Revenue@CurrPrices". First, the revenue was calculated by multiplying the piece-rated volumes times the piece prices, and the pound-rated pounds times the pound prices. These revenues were copied to column

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V. Then all of the piece-rated and pound-rated revenues were summed and placed into the piece-rated cells.

For revenues at proposed prices, the formulas to calculate the revenues were modified to combine the piece-rated and pound-rated volumes and multiply the result by the proposed prices. The revised formula resulted in the exact same revenue at proposed prices that was shown in "CAPCALC-STD-R2015-4.xls" in USPS-LR-R2015-4/2.

While preparing the new CAPCALC file, a minor error in the original file was discovered which overstated the revenue at current prices by a little less than \$52,000. This did not change the overall Standard Mail proposed price increase percentage, nor did it have any impact on the percentage increases for Letters or Carrier Route. The error did cause the percentage price increase to change for High-Density letters from the originally stated increase of 2.027 percent to a revised 2.023 percent.

ii(2) The pound-rated pounds billing determinants were set to zero for letters because of the plan to make all letter prices the same up to 3.5 ounces, and to do away with the separate category of letters weighing 3.3 to 3.5 ounces (which has little volume). This was done to simplify Standard Mail pricing.

The current revenue was put into the piece-rated price cells as described in the answer to question (ii)(1) above. The pound-rated billing determinants do not show in "CAPCALC-STD-R2015-4.xlsx" in USPS-LR-

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R2015-4/2 because of rounding, but they are shown in "CAPCALC-STD-R2015-4-CHIR1Q3b.xls" in USPS-LR-R2015-4/6.

- ii(3) Please see attached "CAPCALC-STD-2015-4-CHIR1Q3b.xls."
- iii There is no specific workbook or tab that directly gives the volumes in the question above, but USPS-LR-FY14-14 provided the general mail characteristics that allowed the Postal Service to characterize the pieces and migrate the FSS volumes. The extracts from the Mail Characteristics Data are found on the "Split FSS", "Split Scheme", and "Split 5D CR" sheets of the workbooks referenced in the response to 3bi above.
- iv. The links were made between file "CAPCALC-STD-R2015-4-CHIR1Q3b.xls and the ten source files submitted in response to questions 3bi and 3biii of CHIR 1. The links were made between volumes of all newly created cells on the CAP WTS pages from "CAPCALC-STD-R2015-4-CHIR1Q3b.xls and the volumes in each of the ten files on the tabs showing the migrated FSS volumes in tabs "BDs ECR" and "BDs non-ECR". Each volume cell in the CAPCALC had 5 links to the volume of files which make up the fiscal year.

The ten source files also show the origin of the volumes in the newly created FSS cells in the "Rate Transition" tabs in each of the ten source files. The "Rate Transition" tabs have a large matrix of approximately 460 rows that shows the migrated volumes and the RPW cells that the volumes are associated with plus several smaller matrices below which acts as a guide to find source volumes form all of the newly

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created cells. Each newly created cell has a key number code which will be on the rows of all of the source cells that provided the volumes to the newly created cells.

- c. FSS pricing for Bound Printed Matter Flats was introduced in Docket No. R2013-10, and this is what is referred to in the Notice language quoted in the question. At that time, FSS prices were set to match Non-FSS prices. In this filing, the Postal Service is building on the Docket No. R2013-10 initiatives by differentiating FSS prices from non-FSS prices. Since all FSS volumes have been reported separately from non-FSS volumes for FY 2014, no billing determinant adjustments were needed. For example, FSS Presort DSCF Flats volume was reported as FSS Presort DSCF Flats. Additionally, the volume from Carrier Route FSS price cells, which will be eliminated as part of this case, have also been reported as FSS volume (rather than Carrier Route) during FY2014. Those volumes therefore do not need to be adjusted in this filing.

Unfortunately, the Billing Determinants filed in USPS-FY14-4 fail to include this level of detail. That detail will be added as errata, and those Billing Determinants will then match the billing determinants included in USPS-LR-R2015-4/5.

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4. The Postal Service proposes to set the DDU Bound Printed Matter (BPM) Parcel passthrough above 100 percent and states that “[t]his was necessary in order to protect the relationships between BPM Parcels’ pricing cells.” Notice at 52.
 - a. Please explain or define the relationships between BPM Parcels’ pricing cells.
 - b. Please explain how setting the passthrough for DDU BPM Parcels above 100 percent is “necessary in order to protect the relationships between BPM Parcels’ pricing cells.”
 - c. Please explain how “reduction or elimination of the discount would impede the efficient operation of the Postal Service” under 39 U.S.C. § 3622(e)(2)(D).

RESPONSE:

- a.-c. In light of Filing revised worksharing tables for Package Services in response to question five, the Postal Service is providing an explanation of all passthroughs that exceed 100 percent below.

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5. The Postal Service provides avoided dropship costs for BPM Flats and BPM Parcels in Attachment B to the Notice, Excel file “(Attachment B).xls,” tabs “Bound Printed Matter Flats” and “Bound Printed Matter Parcels.” The avoided costs from that file are shown below and appear to be partially based on FY 2013 data. In the attached Excel file (Attachment B-Commission Version), the Commission calculated avoided costs using the data provided in Library Reference USPS-FY14-15, Excel file “USPS-FY14-15.BPM.xlsx,” tab “Summary,” cells “C5, C6, C7.” The updated data in the file are color coded. The chart below shows the avoided costs calculated by the Postal Service and the Commission.

Dropship (dollars/piece)	Postal Service Avoided Cost	Commission Avoided Cost
BPM Flats, Basic, Carrier Route DSCF	0.607	0.583
BPM Flats, Basic DFSS Flats	0.607	0.583
BPM Flats, Basic, Carrier Route DDU	0.776	0.751
BPM Parcels, Basic, Carrier Route DSCF	0.607	0.583
BPM Parcels, Basic, Carrier Route DDU	0.776	0.751

- a. For “BPM Flats, Basic DFSS Flats,” please provide the source for the calculation of dropship avoided cost. If the dropship avoided cost for “BPM Flats, Basic, Carrier Route DSCF” is a proxy for the dropship

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avoided cost for "BPM Flats, Basic DFSS Flats," please explain why "BPM Flats, Basic, Carrier Route DSCF" is an appropriate proxy.

- b. Please confirm the Commission calculations of avoided cost are correct. If not confirmed, please provide an explanation for the Postal Service avoided cost calculations.
- c. If part b. is confirmed, please file a revised Attachment B to the Notice, Excel file "(Attachment B).xls," with updated avoided costs rounded to 3 digits and updated passthroughs for BPM Flats and BPM Parcels. If any updated passthroughs exceed 100 percent, please provide justification under 39 U.S.C. § 3622(e).

RESPONSE:

- a. The cost study on DFSS Workshare is still in the early stages of development. Until the cost study is complete, DSCF is the nearest available proxy to DFSS in terms of prep levels received and facility type. This is especially true for the vast majority of FSS facilities, which are collocated with a DSCF or have bundle sorting capabilities. In those cases, the DFSS functions in such a way that it can assume the DSCF function entirely for FSS prepared mail.
- b. Confirmed.
- c. The excel workbook *Rev Workshare Tables (Pack Serv).xls*, filed concurrently with this response, contains three tables of workshare discounts, cost avoidances, and passthroughs for Package Services. All workshare discount passthroughs for Media and Library Mail are below 100 percent.

For Bound Printed Matter ("BPM") Flats one workshare discount exceeds 100 percent; the DFSS BPM Flat passthrough, which is set to 101.7 percent. This was necessary to prevent mailers in non-FSS zones from experiencing a further rate

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increase in order to provide room to structure the DFSS discount in a manner that properly induces mailers to enter scheme containers of mail at the DFSS (which is of economic benefit to the Postal Service). For example, if the postal service were to lower the DFSS Flats passthrough to 100 percent, then Non-Presort DSCF Flats Mailers would experience a decrease in the DSCF workshare discount, which would result in a price increase for those mailers. This would happen because of the need to maintain a consistent relationship between the Non-Presort DSCF and DFSS price cells. In order to entice mailers to present scheme containers of mail at the DFSS, the Postal Service is maintaining a 1 cent difference between FSS and Non-Presort DSCF piece prices. Because of this pricing relationship, if one workshare discount goes down, they both have to go down, resulting in a situation where a mailer that is not eligible for the DFSS discount would experience a rate increase. Accordingly, the Postal Service justifies this passthrough pursuant to 39 U.S.C. § 3622(e)(3)(B).

For BPM Parcels, two of the workshare discount passthroughs exceed 100 percent; the DSCF Bound Printed Matter Parcel passthrough, which is set at 103.9 percent; and the DDU Bound Printed Matter Parcel passthrough, which is set at 104.3 percent. To lower each of the parcel discounts to match avoided costs would likely have caused rate shock, and would have necessitated irrational and drastic rate decreases for non-workshared mail. This is especially true, since all BPM Parcel discounts have already been reduced significantly to compensate for a roughly 6-cent decrease in avoided costs since the last market dominant price change. In comparison to the passthroughs reported in the FY 2014 ACR, the

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postal service has reduced the DSCF Passthrough from 110.1 percent to 103.9 percent and the DDU passthrough from 105.3 percent to 104.3 percent. In true testament to the postal service's efforts, the DNDC passthrough was reduced from 121.6 to 100.0 percent. Additionally, by aligning the DSCF and DDU workshare discounts with avoided costs, the Postal Service would lessen mailers' incentive to enter economically and operationally beneficial workshared mail.

Though the Postal Service has endeavored to bring passthroughs as close to 100 percent as possible, the large decrease in avoided costs, combined with a relatively small amount of CPI pricing authority, made it difficult to achieve the important goal of reducing the DSCF and DDU passthroughs to 100 percent. It is the Postal Service's intent to align these workshare discounts with avoided costs as soon as practicable. Based on the above, the Postal Service justifies the two parcel passthroughs according to sections 3622(e)(2)(D) and 3622(e)(2)(B).